canada development corporation

CDC

corporation de développement du canada

annual report 1972

CDC

the corporation's objectives

1. *To develop and maintain strong, Canadian-controlled and managed corporations in the private sector*

2. *To widen the investment opportunities open to Canadians*

3. *To operate profitably and in the best interests of all the shareholders*

Pour obtenir l'édition française du présent rapport,
on est prié d'écrire au secrétaire,
Corporation de développement du Canada,
suite 901, 130 rue Albert, Ottawa K1P 5G4, Ontario.

CDC

report of directors

Summary Financial Results

During 1972, our first full year of activity, shareholders' equity increased from its initial level of $25 million to just under $200 million, while consolidated total assets rose to almost $315 million. Net income for the year amounted to $2.1 million compared to the $57,000 earned during the first month of operations in December 1971. Earnings per share increased from 27 cents in 1971 to 31 cents in 1972, based on the weighted average of shares outstanding during these periods. A total of $91.6 million was invested in companies in the fields of petrochemicals, Arctic pipelines, health care, and venture capital.

Net income for the first quarter of 1973 rose to $1.4 million, or 8 cents per share, from the $100,000 or 4 cents per share earned in the comparable period last year. Investments totalling $5.5 million were made in venture capital and our health care group during this period, and plans for our initial investment in the field of natural resources were further advanced. Shareholders' equity was increased by a further $50 million during the quarter with the issue of additional common shares.

In preparing our first annual financial statements, we determined that these statements should be prepared on a consolidated basis, since this presents the most meaningful picture of our overall financial position and operating performance. As explained in Notes 1 and 3 to the statements, there is full consolidation of companies in which we have a greater than 50% interest (in 1972, Polysar Limited and Connaught Laboratories Limited), while our position in companies in which we have a less than majority interest is carried at cost, which is less than current values. In future periods, we intend to report the results of our less than 50% holdings on an "equity" basis, when this is appropriate in the light of our percentage holdings and involvement in the affairs of the company concerned, as suggested by generally accepted accounting principles.

Corporate Policy

An important task in the early part of our first full year of operations was to try to identify the financial, entrepreneurial, and other opportunities which could be seized by the Corporation to help develop strong, profitable, and growing Canadian enterprises. We quickly determined that we would be an equity investor since we saw no reason to be a lending institution in a country already well endowed with such institutions. We determined further to concentrate on longer-range development, especially larger projects; industries which involve an upgrading of resources, a high technological base, or a good potential for building up a Canadian-based presence in international markets have a particular attraction for us. We also decided that the industries selected should have a growth rate approximately double that of Gross National Product, should offer the possibility of rate of return on equity in the range of 15% in the long run, and should have a large enough potential to have a meaningful impact on the CDC's overall results. Finally, we concluded that we did not wish merely to duplicate or preempt the activities of other Canadian investors.

It can be seen from the foregoing that we do not view ourselves as, nor does our legislation require us to be, buyers of last resort, a "buy-back" agency, or the high bidder in some take-over contest. While it is hoped that opportunities to repatriate control of Canadian companies may arise from time to time, we must be alert to the fact that such companies may be for sale precisely because they have lost their growth characteristics. Quite frequently, the best way to build up strong and profitable Canadian-controlled corporations will be to add to the potential of high-growth enterprises which are already Canadian. Much of the foreign investment in Canada was created by starting new enterprises, and if we as a nation are to increase the Canadian content of our economy, it must be essentially by encouraging the sound growth of Canadian-controlled enterprises at a pace which exceeds that of their non-resident-owned competitors.

In any event, it is our intention to build primarily upon Canadian strengths and competence, particularly in those areas where foreign ownership is high and the investment participation of Canadians is limited. To the extent that we, whether alone or with others, increase the supply of Canadian equity funds and invest them wisely and profitably in the development of our economy, Canada's dependence on non-resident-controlled capital will be correspondingly reduced. It is of central importance that we invest in rapidly-growing enterprises since to tie up Canadian funds in less dynamic firms would result in less, not more, Canadian ownership in the long run.

To avoid scattering our resources too thinly in too many directions, and thus losing both effectiveness and a firm grip on our under-

lying assets, we have decided to concentrate in our initial period on six areas of investment attraction. These are:
petrochemicals;
pipelines and related northern transportation;
petroleum and natural gas;
mining, smelting, and refining;
venture capital; and
pharmaceuticals, medical equipment, and other manufactured products relating to health care.

We have determined that we should make our investments in these fields through "vehicle companies" which will have their own skilled staffs and specialized operating managements. This will enable us to keep a small, flexible, and creative central staff—making good use of qualified consultants where required—to direct the general policy of the vehicle companies, to maintain appropriate financial controls over them, to ensure they follow good management development policies, and to encourage them to remain innovative and growth-oriented. In this way, we hope to avoid acquiring a large, unwieldy, and inefficient central staff with the attendant risk of killing the entrepreneurial spirit and imagination of the senior management of companies in which we have investments.

We believe that we should normally have effective financial control of our underlying companies if we are to be able to take the necessary measures to influence their value and development. This will usually mean that we and our partners will have a majority—or close to a majority—of the voting shares. We are prepared to enter partnerships with non-resident investors in joint venture projects but will do this only when control lies with Canadian interests. We believe that such joint ventures may be a more general feature of the Canadian investment scene in the years to come since they permit significant Canadian participation, economize on foreign capital, and make a variety of skills and markets available to major Canadian projects.

Whether in joint ventures or alone, the Corporation's role will not be to intervene in the day-to-day operations of the underlying companies but rather to take an active part in their strategy, goal-setting, and longer-range business planning. This we will do primarily through membership on their boards or executive committees, and we shall be prepared to change senior management if it is weak or inadequate.

Year's Investment Activities

Petrochemical and Related Industries

On July 31, 1972, we acquired all of the shares of Polysar Limited (formerly Polymer Corporation Limited) from the Canadian Government for an initial sum of $62 million, with an additional $10 million to be payable if certain profit targets are achieved. This price was arrived at after extensive bargaining and use of independent consultants' reports commissioned separately by the Government and by CDC. Since we acquired Polysar, it has greatly accelerated its capital spending and expansion, has significantly advanced its plans for improving its raw material costs, and has taken a number of other measures to improve its competitive position and prospects.

Polysar's 1972 net income of $7.1 million increased sharply over the depressed level of $500,000 reported in 1971 and, although the Building Systems Division continues to be a drain on earnings performance, it is anticipated that the Company's 1973 total net income—before any extraordinary items—will improve further. Its basic synthetic rubber, latex, and plastics markets are buoyant and price levels have firmed, although the rising costs of certain raw material supplies are a partly offsetting factor. Studies of the Sarnia Olefins and Aromatics Project (SOAP) are proceeding in partnership with Du Pont of Canada Limited, and the CDC has indicated that it will fully support Polysar's participation in this project to improve basic petrochemical feedstock prices and supplies if its profitability proves to be as attractive as preliminary analysis indicates. Management of the Building Systems Division has been changed and strengthened, and it is expected that a decision as to whether to proceed further in this field will be taken in the latter part of 1973.

Arctic Gas Pipeline and Northern Transportation

On November 30, 1972, the CDC joined the Gas Arctic-Northwest Project Study Group which is studying economic, environmental, and other aspects of the construction and operation of a large diameter, natural gas pipeline from Alaska and the Canadian Arctic to markets in Canada and the United States. This consortium was formed in June 1972, to continue studies being made by two predecessor groups, Gas Arctic Systems Study Group and the Northwest Project Study Group. Of the 26 companies now

participating in the consortium, 10 are majority Canadian-owned and there is a substantial Canadian investment in four others. The anticipated capital cost of building the line is of the order of $5 billion, of which perhaps 20% might be equity and the balance various categories of debt financing. It is planned that a majority position in the equity portion of this capital should be held by Canadians. The CDC has indicated its interest in acquiring a substantial equity holding in this enterprise if a viable and attractive project can be developed. Pre-construction expenses are being shared equally among members of the consortium; some $30 million has been spent to date and another $30 million is provided for in current estimates.

The 48" line which is planned would deliver in excess of 4 billion cubic feet of gas per day, of which about half is expected to come from Prudhoe Bay in Alaska and about half from the Mackenzie Delta. The line is expected to be a contract carrier which will neither buy nor sell gas, but will provide transportation, at a regulated rate of return, for shippers of gas who contract for this service. Approval will be required in Canada under the National Energy Board Act—i.e., a favourable decision by the Board and confirmation by the Governor in Council—and also by the Department of Indian Affairs and Northern Development in respect of the use of federal lands for a right-of-way across the Yukon and Northwest Territories. In the United States, applications will be made to the Federal Power Commission and the Department of the Interior. It is intended to file applications in Canada this year with the aim, if approvals are obtained in time, of starting construction during the winter of 1975-76 so that gas could start flowing from the Mackenzie Delta by mid-1977 and from Prudhoe Bay by mid-1978.

We have also indicated our interest in other forms of northern transportation. One of the Crown Corporations listed in Section 39 of the CDC Act as available for sale by the Government of Canada to the Corporation, if agreement can be reached on terms, is Northern Transportation Company Limited which has a major barge and tugboat operation on the Mackenzie River and related shipping operations in the Arctic. We have had preliminary talks with the Government during which we indicated our readiness to negotiate for this company. Other possible investments in transportation in the North have been studied with the aim of developing a comprehensive, inter-modal approach which would cover air, ground, and water transport. We believe that the CDC could play an important and creative role in the balanced economic development of the North to the benefit of northern inhabitants and Canada as a whole.

Mining and Petroleum Industries

The resource industries provide a significant opportunity to advance CDC's objectives, quite apart from the fundamental contribution these industries make to Canada's economic growth and prosperity—both directly and through their use of a wide range of Canadian manufactured goods and services. Accordingly, mining and petroleum were chosen as priority industries at an early stage, and we have spent a great deal of time and effort seeking suitable vehicle companies through which the CDC can participate in these industries. We anticipate taking a significant position in this sector in the year ahead, apart from the two Crown investments mentioned below.

The first of these investments is the Government's 45% interest in Panarctic Oils Ltd., a consortium of 19 private sector participants and the Canadian Government, formed in 1966 to explore for oil and gas in the Canadian Arctic Islands. An investment in Panarctic with its substantial interests in the frontier area of hydrocarbon exploration in Canada would be a valuable component of CDC's overall position in the petroleum industry. We have therefore conducted our own appraisal of the Government's share of Panarctic and indicated to the Government some time ago that we are prepared to commence negotiations.

Section 39 of our legislation also mentions a second natural resources company, Eldorado Nuclear Limited, which has a uranium mining operation at Uranium City on Lake Athabaska as well as a chemical and metallurgical complex at Port Hope. The world energy situation and the very successful performance of the Canadian natural uranium reactors operated by the Ontario and Quebec Hydro Commissions suggest to us that there is a favourable long-term outlook for the uranium mining and refining industries in Canada. We have therefore indicated that on this company, too, we are prepared for serious negotiations with the Government.

Venture Capital

While our incorporating legislation directs us away from making investments in companies having an equity of less than $1 million,

we have invested in three venture capital companies as a means of helping to strengthen this important area of Canadian managerial and technological development. In each of the companies we have selected, we are in partnership with a number of Canadian institutions and individuals, a pattern we hope to follow in many of our investments. We believe that the total resources of the companies with which we are now associated represent the largest pool of venture capital in Canada and are pleased to have attained this position in our first full year of operations.

Our first investment in this field was made last August when we invested \$4½ million in a 35% interest in Venturetek International Limited of Toronto which has made excellent progress since its formation in 1969. Several significant investors have recently acquired positions at substantially more than our cost per share.

In January 1973, we invested over \$2 million in Ventures West Capital Ltd., a new organization headquartered in Vancouver which will concentrate on serving the venture capital requirements of western and northwestern Canada. In addition, we recently announced our commitment of \$4 million for a 40% interest in Innocan Investments Ltd., a new Montreal-based venture capital company which commenced operations in May 1973.

Health Care

Last summer we acquired Connaught Laboratories Limited from the University of Toronto for some \$24 million. Connaught had earned an outstanding reputation for the quality of its biological research, but it represented an underexploited Canadian opportunity in that its absolute size had remained virtually unchanged while other companies in the industry, mainly non-resident-controlled, were growing vigorously. This acquisition was an important initial step in our plans to create an effective, Canadian-owned complex in the health care field. While Connaught was not profitable during the last half of 1972, this situation is now being turned around through the injection of new management with commercial and administrative skills intended to complement the company's strong scientific talents. Although its expansion program is still at an early stage, Connaught is currently operating profitably and substantial further improvement is expected during 1973.

Early in 1973, we joined with the Caisse de dépôt et placement du Québec to form a new holding company, Omnimedic Inc., which will acquire, integrate, and develop operating companies in the pharmaceutical and medical supplies field.

Initially, Omnimedic has acquired control of two existing firms and is building them into a stronger, better-balanced, and more viable entity. This attractive investment illustrates the role we can play in rationalizing and strengthening the management of industries in which we invest and will increase Canadian participation in the health care field.

In February 1973, we announced the acquisition of 70% interests in Raylo Chemicals Limited and R & L Molecular Research Ltd., of Edmonton, which manufacture fine chemicals and are involved in research related to pharmaceuticals, biochemistry, and organic chemistry.

Currently we are engaged in discussions involving other possible acquisitions or joint ventures designed to promote the development of a strong Canadian-owned health care complex which will conduct significant research in this country and which will make health care products, both domestically and internationally, at the most economical price. To facilitate direction of the diverse operations of this group, we are forming a new national health care holding company which will own all our interests in this field.

Share Issue

The clear intent of our incorporating legislation is that up to 90% of the 200 million authorized voting common shares be held ultimately by Canadian citizens or residents, with the Government—which created the Corporation—holding not less than 10% of the total. Indeed the Company is given power, at its sole option, to redeem for cancellation any shares held by the Government in excess of 10%. In dollar terms, the Government is authorized to invest up to \$250 million in shares of the Company plus the amount of any shares or securities acquired through sale to the CDC of any Crown investments. All shares currently outstanding are held by the Government which has agreed that its full cash subscription will be made within three years from the date of CDC's establishment. Of this cash subscription, \$125 million remains to be drawn down.

If we are to achieve the Corporation's aim of widening the investment opportunities open to Canadians and to raise the funds

necessary for the CDC to have a significant impact on national development and achieve its objectives on a worthwhile scale, it is clear that an offering of shares to the investing public should be made at the earliest possible date. We have therefore given top priority to the question of the timing, nature, and amount of an initial distribution of shares to the general public. It is our view that before proceeding with a public issue the CDC should have made one or two more major investments, at least one of which would preferably be in the resource field, apart from any further acquisition of Crown investments. Once this is achieved, we will examine with investment advisors the most advantageous timing for the success of the issue in the light of the state of financial markets and other developments. Any issue would stress the high-risk nature of our common shares, and would be offered in such a way as to make these shares easily available to purchasers in all part of Canada.

Officers and Staff

Following the Annual Meeting held on May 22, 1973, the Board of Directors appointed Mr. Marshall A. Crowe as Chairman of the Board, Mr. H. Anthony Hampson as President and Chief Executive Officer, and Mr. Donald C. Morrison as Executive Vice President. Mr. Crowe, formerly President of the Corporation, will be responsible for development of policy and longer-term planning of the Corporation and for relationships with government. Mr. Hampson, formerly Chairman of the Board, will be responsible for the operations and financing of the Corporation and for arranging and carrying out the monitoring and supervision of the companies in which the Corporation has investments. Mr. Morrison, formerly Vice President, will continue to be the CDC's Chief Financial Officer in addition to assuming his new duties.

Our staff is a small one, numbering 15 persons in all, but it more than makes up for its lack of size in its quality, energy, and enthusiasm. It is a pleasure on your behalf to thank them for their creative, loyal, and practical efforts to make the Corporation a vital force on the Canadian financial and economic scene.

Respectfully submitted on behalf of the Board,

Marshall A. Crowe

Marshall A. Crowe,
Chairman of the Board

H. Anthony Hampson

H. Anthony Hampson,
President and Chief Executive Officer

May 23, 1973.

CDC canada development corporation

(Established by the Canada Development Corporation Act)
and subsidiary companies

consolidated balance sheet / december 31, 1972

assets

	1972	1971
	(thousands of dollars)	
Current assets		
Cash	**$ 1,627**	$ 43
Short-term investments, at cost which approximates market value	**52,250**	25,031
Accounts receivable	**62,978**	
Inventories (note 2)	**49,930**	
Prepaid expenses	**2,049**	
	168,834	25,074
Investment in other companies (note 3)	**10,357**	
Fixed assets		
Buildings and equipment, at cost	**292,981**	15
Less accumulated depreciation	**174,288**	
	118,693	15
Land, at cost	**9,347**	
	128,040	15
Other assets		
Deferred charges, at cost less amortization	**4,001**	
Patents and technology, at cost less amortization	**3,567**	
	7,568	
	$314,799	$ 25,089

Approved by the Board

H. A. Hampson, *Director*
M. A. Crowe, *Director*

The accompanying notes are an integral part of the financial statements

liabilities

	1972	1971
Currrent Liabilities	(thousands of dollars)	
Bank advances	$ 807	
Short-term loans	22,971	
Accounts payable and accrued liabilities	30,782	$ 32
Income and other taxes payable	1,393	
Principal due within one year on long-term debt	5,911	
	61,864	32
Long-term debt of subsidiary companies (note 4)	47,038	
Deferred acquisition obligation (note 5)	1,157	
Deferred income taxes	4,153	
Interest of minority shareholders in subsidiary companies	688	
Total liabilities	114,900	32

shareholders' equity

	1972	1971
Capital stock	(thousands of dollars)	
Authorized Preferred, $1,000,000,000, divided into shares with a par value in any multiple of $5 Common, 200,000,000 shares without par value		
Issued		
13,594,114 Common shares (1971, 2,500,000 shares) (note 6)	137,000	25,000
Retained earnings	2,130	57
Excess of book value over cost at date of acquisition of subsidiary (note 1(c))	60,769	
	199,899	25,057
	$314,799	$ 25,089

auditors' report

THORNE GUNN & CO.

To the Shareholders of
Canada Development Corporation

We have examined the consolidated balance sheet of Canada Development Corporation and subsidiary companies as at December 31, 1972 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination of the Corporation included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to rely on the reports of the other auditors for purposes of consolidation.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Thorne Gunn + Co.

Chartered Accountants
Ottawa, Canada
March 30, 1973

CDC canada development corporation

(Established by the Canada Development Corporation Act)
and subsidiary companies

consolidated statement of income and retained earnings

Year ended December 31, 1972

	1972	1971
	(thousands of dollars)	
	(note 1(a))	*(1 month)*
Income		
Sales of products and services	**$ 92,333**	
Other income	**3,974**	$ 108
	96,307	108
Expenses		
Cost of sales	**79,490**	
Selling, administration and research	**12,031**	51
Interest on long-term debt	**1,614**	
Other interest	**492**	
	93,627	51
Income before the following items	**2,680**	57
Income taxes (note 10)	**925**	
Minority interest in net losses of subsidiary companies	**318**	
	607	
Net income for the period	**2,073**	57
Retained earnings at beginning of period	**57**	
Retained earnings at end of period	**$ 2,130**	$ 57
Earnings per share		
Net income based on weighted average of common shares outstanding during the period	**.31¢**	.27¢

The accompanying notes are an integral part of the financial statements

CDC canada development corporation

(Established by the Canada Development Corporation Act)
and subsidiary companies

consolidated statement of source and application of funds

Year ended December 31, 1972

	1972	1971
	(thousands of dollars)	
	(note 1(a))	*(1 month)*
Source of funds		
Operations		
Net income for the period	**$ 2,073**	$ 57
Items not involving current funds		
Depreciation and amortization	**8,132**	
Other	**64**	
	10,269	57
Common shares		
Issued for cash	**50,000**	25,000
Issued for shares of subsidiary company	**62,000**	
Proceeds from long-term debt	**1,885**	
Proceeds from sale of capital assets	**2,435**	
	126,589	25,057
Application of funds		
Investment in subsidiary companies	**85,901**	
Less working capital at dates of acquisition	**61,512**	
	24,389	
Additions to fixed assets	**10,560**	15
Additions to other assets	**1,699**	
Repayment of long-term debt	**2,395**	
Investment in other companies	**5,618**	
	44,661	15
Increase in working capital	**81,928**	25,042
Working capital at beginning of period	**25,042**	
Working capital at end of period	**$106,970**	$ 25,042

The accompanying notes are an integral part of the financial statements

(Established by the Canada Development Corporation Act)
and subsidiary companies

notes to consolidated financial statements

Year ended December 31, 1972

1. Principles of consolidation

(a) These consolidated financial statements incorporate the financial position, operating results and sources and application of funds of the Corporation for the year while those of its two wholly-owned subsidiaries are included only from the dates of their acquisition.

The contribution to 1972 consolidated income of the Corporation and its subsidiaries is as follows:

	Months in consolidation	Sales	Other income	Income (loss) after taxes
		(in thousands of dollars)		
Polysar Limited (formerly Polymer Corporation Limited)	5	$86,687	$2,101	$2,090
Connaught Laboratories Limited	6	5,646	386	(456)
Canada Development Corporation	12		1,487	439
		$92,333	$3,974	$2,073

(b) Connaught Laboratories Limited, a wholly-owned subsidiary, was acquired as of July 1, 1972 for cash consideration of $23,901,176. It was accounted for as a purchase in the following manner:

	(in thousands of dollars)
Assets acquired:	
Current	$ 8,430
Fixed	17,649
	26,079
Less liabilities assumed	2,178
Net assets acquired	$23,901

(c) Polysar Limited, also a wholly-owned subsidiary, was acquired through an exchange of shares on July 31, 1972 at a cost of $62,000,000. In addition, possible further amounts (not to exceed $10,000,000) may be payable dependent upon the profitability of certain of its operations in 1973 and 1974. The $62,000,000 cost was accounted for as a purchase in the following manner:

	(in thousands of dollars)
Assets acquired	
Current	$106,417
Fixed	107,067
Other long-term	14,319
	227,803
Less liabilities assumed	105,034
Net assets acquired	122,769
Less excess of book value over cost at date of acquisition ("Negative Goodwill")	60,769
	$ 62,000

The Corporation does not consider it appropriate to apply negative goodwill against the book value of Polysar's fixed assets since this approach would cause a material understatement of fixed asset values. Accordingly, the Corporation has recorded fixed assets at their estimated fair values as shown above, and future depreciation will be based on these values rather than on the substantially lower values that would have resulted if the negative goodwill had been applied against Polysar's fixed assets. The resultant unrealized increment has been carried to a separate account within shareholders' equity ("Excess of Book Value Over Cost at Date of Acquisition of Subsidiary"). Dependent upon such factors as sale of the assets or increases in their earning power, this amount will be transferred directly to retained earnings. Any additional payment for the Polysar shares will be charged against the unrealized increment.

(d) Consolidation of non-Canadian current assets and liabilities has been made at rates of exchange in effect on December 31, 1972; all other assets, including applicable depreciation, and liabilities at the rates prevailing when the assets were acquired or the liabilities incurred; and income and expense, except depreciation, at rates in effect during the year.

2. Inventories

	(in thousands of dollars)
Raw materials and work in process	$13,729
Finished goods	27,067
Operating and maintenance supplies	9,134
	$49,930

Inventories are valued at the lower of cost or net realizable value.

3. Investment in other companies

At December 31, 1972, investment in other companies which are less than 50% owned and have not been consolidated is recorded at cost which, in aggregate, is less than current values of underlying assets.

The 1972 consolidated statement of income includes income from investments in other companies of $208,000.

4. Long-term debt of subsidiary companies

	(in thousands of dollars)
Polysar Limited	
Loans repayable:	
In French francs during the years 1973 to 1980 (Fr. 33,125,000) bearing interest at rates varying from 6.5% to 9.25%	$ 6,614
In Belgian francs during the years 1973 to 1977 (Fr. 250,000,000) bearing interest at 6.5% and secured by a mortgage on certain land and buildings	5,448
In Swiss francs during the years 1975 and 1976 (Fr. 25,000,000) bearing interest at the rate of 6.875% until the latter part of 1973 and variable thereafter with a minimum of 6.75%	6,387
In United States dollars: In annual instalments under lease arrangements, increasing from U.S. $550,000 in 1973 to U.S. $1,610,000 in 1985 bearing interest at 9.75% and secured by a mortgage on certain fixed assets	11,204
In monthly instalments through 1989 (U.S. $4,807,000) bearing interest at rates varying from 6.5% to 8.25%, of which U.S. $4,217,000 is secured by mortgages on certain fixed assets	4,889
In 1973 (U.S. $1,000,000) bearing interest at 4.5%	990
7.5% Debentures: in Canadian Dollars:	
Serial Debentures Series A repayable in equal annual instalments during the years 1973 and 1974	2,000
Sinking Fund Debentures Series maturing November 1, 1987—pursuant to sinking fund requirements, annual payments of $650,000 are required during the years 1975 to 1986, with a final payment of $5,200,000 in 1987	13,000
Other	2,357
	52,889
Less principal due within one year included in current liabilities	5,911
	46,978
Connaught Laboratories Limited	
8½% note payable, due 1974—1976	60
	$47,038

Sinking fund requirements and portion of long-term debt due in each of the next five years are as follows: 1973—$5.9 million; 1974—$4.8 million; 1975—$7.8 million; 1976—$7.2 million; 1977—$4.1 million.

5. Deferred acquisition obligation

The deferred acquisition obligation represents the current discounted value of the purchase price of all of the common stock of a foreign corporation and is payable by Polysar Limited on September 1, 1975. The discount in the amount of $373,000 is being amortized against income over the period ending September 1, 1975.

6. Capital stock

During the year, the Corporation issued 11,094,114 common shares as follows:

		(in thousands of dollars)
4,952,460	Shares for cash of	$ 50,000
6,141,654	Shares on acquisition of Polysar Limited valued at	62,000
11,094,114		$112,000

7. Commitments

At December 31, 1972 certain subsidiaries were committed to spend approximately $21,000,000 for acquisition of capital assets.

8. Subsequent events

(a) On January 22, 1973, 4,916,421 additional common shares of the Corporation were issued for a cash consideration of $50 million.

(b) Subsequent to December 31, 1972, the Corporation made investments in the following subsidiaries:

	% of share equity	Cost of investment (in thousands of dollars)
Ventures West Capital Ltd.	58.6	$2,050
Raylo Chemicals Limited	70	294
Omnimedic Inc.	70	3,160
		$5,504

In addition, the Corporation has commitments to invest a further $1,840,000 in Omnimedic Inc. and $500,000 in Ventures West Capital Ltd.

9. Pension plans

The unfunded past service liability of the pension plans relating to employees of certain subsidiaries is being funded over the next seventeen years with annual charges against operations of approximately $365,000.

10. Income taxes

Income taxes on a consolidated basis includes amounts computed on the operating results of many domestic and foreign subsidiaries of Polysar Limited some of which sustained operating losses in the current period while others earned income subject to varying rates of tax. That company does not give recognition to the potential future tax benefit represented by current losses of certain subsidiaries. Prior loss carry-forwards effectively reduce 1972 taxes otherwise payable after acquisition by $625,000. Such reduction is considered as being part of the computation of current income taxes.

11. Statutory information

In accordance with the provisions of the Canada Corporations Act, the following information is provided:

(a) The 1972 consolidated statement of income includes charges for depreciation of $7,618,000 and for amortization of $514,000 (1971—Nil).

(b) Remuneration of directors and officers of the Corporation:

	1972 *(note 1 (a))*	1971 *(1 month)*
Number of directors	**21**	21
Number of officers	**7**	4
Number of officers who are also directors	**3**	3
Aggregate remuneration of directors as directors of the Corporation	**$ 64,350**	$ 4,200
Aggregate remuneration of directors as directors of subsidiaries	**3,600**	—
Aggregate remuneration of officers as officers of the Corporation	**244,000**	5,417

Officers of the Corporation received no remuneration from subsidiaries

CDC

board of directors

Laurent Beaudoin	*President and Chief Executive Officer, Bombardier Limited, Valcourt, Québec*
Rodolphe B. Casgrain	*President, Casgrain & Company Limited, Montreal, Québec*
François E. Cleyn†	*Chairman and President, Cleyn & Tinker Ltd., Huntingdon, Québec*
Pierre Côté	*President, Laiterie Laval Limitée, Québec, Québec*
Marshall A. Crowe*	*Chairman of the Board of the Corporation*
Louis R. Desmarais*	*President, Power Corporation of Canada, Limited and President, Canada Steamship Lines, Limited, Montreal, Québec*
J. P. Gallagher*	*President, Dome Petroleum Limited, Calgary, Alberta*
H. Anthony Hampson*	*President and Chief Executive Officer of the Corporation*
Gordon F. Hughes	*President, Evangeline Savings & Mortgage Company, Windsor, Nova Scotia*
Douglas N. Kendall*	*Chairman, Kenting Limited, Toronto, Ontario*
Sydney Maislin	*Executive Vice President, Maislin Transport Ltd., Lasalle, Québec*
Hugh A. Martin	*President, Western Construction and Engineering Research Ltd., Vancouver, British Columbia*
H. Harrison McCain	*Chairman, McCain Foods Limited, Florenceville, New Brunswick*
W. C. Y. McGregor†	*International Vice President, Brotherhood of Railway, Airline and Steamship Clerks, Montreal, Québec*
J. H. Moore*	*President, Brascan Limited, Toronto, Ontario*
Maurice Moreau	*Geosearch Consultants Ltd., Toronto, Ontario*
Frederick W. Sellers†	*President, Spiroll Corporation Ltd., Winnipeg, Manitoba*
F. H. Sherman	*President and Chief Executive Officer, Dominion Foundries and Steel, Limited, Hamilton, Ontario*
Mme Livia Thür†	*Vice Rector (Academic), University of Québec, Trois-Rivières, Québec*
J. N. Turvey	*President, Interprovincial Steel and Pipe Corporation Ltd., Regina, Saskatchewan*
Allan F. Waters	*President and General Manager, CHUM Limited, Toronto, Ontario*
J. F. Grandy *ex officio*	*Deputy Minister of Industry, Trade and Commerce, Ottawa, Ontario*
S. S. Reisman* *ex officio*	*Deputy Minister of Finance, Ottawa, Ontario*

officers

Marshall A. Crowe	*Chairman of the Board*
Louis R. Desmarais	*Vice Chairman of the Board*
H. Anthony Hampson	*President and Chief Executive Officer*
Donald C. Morrison	*Executive Vice President*
Marcel Cazavan	*Vice President*
H. Hume Wright	*Vice President*
Claude R. Marchand	*Secretary and General Counsel*

**Member of the Executive Committee*
†Member of the Audit Committee